

# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of Central Management Services  
Two Years Ended June 30, 2002

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**REVIEW: 4195**  
**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**TWO YEARS ENDED JUNE 30, 2002**

**FINDINGS/RECOMMENDATIONS - 6**

**ACCEPTED - 2**  
**IMPLEMENTED - 4**

**REPEATED RECOMMENDATIONS - 0**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 3**

This review summarizes the audit of the Department of Central Management Services for the two years ended June 30, 2002, filed with the Legislative Audit Commission March 13, 2003. The auditors conducted a compliance audit and a financial audit in accordance with *Government Auditing Standards* and State law, and stated that the financial statements of the nonshared funds of the Department are fairly presented.

The Department of Central Management Services (CMS) is part of the executive branch of government of the State of Illinois and provides a wide variety of centralized services to other State and local government agencies. Such services include procurement; data processing and data communication; personnel; vehicles; property management; internal security and investigation services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administering the State's Business Enterprises Program for Minorities, Females, and Persons with Disabilities. CMS is organized into nine major bureaus: Administrative Operations, Benefits, Communication and Computer Services, Information Services, Personnel, Property Management, Business Enterprise Program for Minorities, Females, and Persons with Disabilities, Internal Security and Investigations, and Support Services. The purpose and function of the Department is to provide quality, cost-efficient services to support Illinois government operations through responsive and professional leadership.

Central Management Services administers 22 nonshared funds including five internal service funds, seven special revenue funds, two debt service funds, two capital projects funds, three enterprise funds, two agency funds and one pension trust fund.

During the two-year period under review, Michael S. Schwartz was the Director of Central Management Services. He retired after 14 years of service (eight as director) on September 29, 2002. Mr. Stephen Schnorf was appointed Acting Director on October 1, 2002. Mr. Michael Rumman was appointed Director of CMS on January 17, 2003. Mr. Rumman had no previous association with the department.

The average number of employees was:

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	<i><b>FY02</b></i>	<i><b>FY01</b></i>	<i><b>FY2000</b></i>
Administrative Operations	80	79	82
Communications & Computer Services	390	380	375
Personnel	158	158	171
Benefits	126	129	124
Support Services	256	261	262
Property Management	170	171	175
Information Services	57	57	56
Business Enterprise for Minorities, Females & Persons with Disabilities	7	6	6
Security & Investigations	45	46	44
<b>TOTAL</b>	<b>1,289</b>	<b>1,287</b>	<b>1,295</b>

**Expenditures From Appropriations**

The General Assembly appropriated \$2,653,795,400 to the Department for the year ended June 30, 2002. Appendix A summarizes these appropriations and expenditures for the period under review. 28.6% of the Department's appropriations are from the General Revenue Fund, and the remaining appropriations are from 16 other funds. General and administrative operations of the Department are paid from the State's General Revenue Fund, as described in Appendix B. The Department accounts for the services it provides to other State agencies on a cost-reimbursement basis or a recovery of cost basis through five internal service funds and an enterprise fund. The funds either produce the goods or services directly, or use their combined purchasing power to acquire goods at a lower cost, which are then sold to State agencies.

Total expenditures of the Department increased from \$2,079,806,731 in FY2000 to \$2,233,795,929 (7.4%) in FY01 to \$2,322,793,595 (4%) in FY02. Examples of significant variations in expenditures between FY01 and FY02 included:

- \$35 million increase in GRF group insurance;
- \$6.7 million increase in Road Fund for Worker's Comp claims;
- \$3.5 million decrease in local government contributions in the Health Insurance Fund;
- \$7.7 million increase in data processing for the Statistical Services Revolving Fund;
- \$29 million decrease in telecommunications in the Communications Revolving Fund;
- \$20 million increase in Wireless Service Emergency Fund;
- \$10.4 million decrease in the Group Insurance Premium Fund; and
- \$61.8 million increase in the Health Insurance Reserve Fund.

Lapse period spending was 6.5%, or \$150.9 million.

### **Cash Receipts**

Appearing in Appendix C is a summary of cash receipts of the Department during FY2000 through FY02. Total cash receipts increased from \$1,589,257,554 in FY01, to \$1,686,516,018 in FY02, an increase of \$97.26 million or 6.1%. Examples of significant variations in receipts from FY01 to FY02 included:

- \$2 million increase in Flexible Spending Account Fund due to payroll deductions;
- \$6.3 million decrease in Statistical Services Revolving Fund;
- \$11.3 million increase in Communications Revolving Fund;
- \$14.3 million increase in the Deferred Compensation Fund from payroll deductions;
- \$86 million increase in the Health Insurance Reserve Fund;
- \$18.7 million increase in the two Wireless Funds; and
- \$30 million decrease in the Group Insurance Premium Fund.

### **Property and Equipment**

Appendix D provides a summary of property and equipment for FY02 and FY01. The balance as of the end of FY02 for property and equipment was \$523,966,000, which represents a 0.6% decrease from FY01. In FY02, the majority of property and equipment (\$390.7 million) was comprised of buildings and building improvements.

### **Accounts Receivable**

According to the Department, net accounts receivable increased from \$219,371,000 as of July 1, 2001, to \$301,145,000 as of June 30, 2002. The largest receivable, \$183,746,000, is due from the Health Insurance Reserve Fund.

### **Accountants' Findings and Recommendations**

Condensed below are the six findings and recommendations included in the audit report. There were no repeat findings. Three prior recommendations were either withdrawn or implemented. The following recommendations are classified on the basis of information provided by Ron Banks, Chief Financial Officer, via electronic mail received January 14, 2004.

### **Accepted or Implemented**

**1. Record all fixed assets under the Department's jurisdiction and control.**

**Findings:** The Department failed to maintain complete and accurate property and equipment records resulting in an understatement of fixed assets. \$13,272,000 in property and equipment transferred from CDB was not included in the fixed asset report. Certain real property, in the amount of \$8,864,000, titled to the Department was excluded from fixed asset records because they are being used by other agencies.

**Response:** Implemented. Procedures have been implemented in which Property Management forwards the CDB transfer reports to CMS Accounting Division to ensure that all fixed asset information is properly recorded. CMS Accounting prepared and submitted the Quarterly C-15 Fixed Assets Reports to the Comptrollers' Office on time during FY2003. These reports include the Agency's real property submitted to the General Assembly on Form A.

**2. Comply with the Personnel Rules and require employees to use accrued vacation within 24 months of the end of the calendar year in which such time was earned. In situations where it is in the best interests of the Department to deny requested vacation leave, document such denials and work with the employee to set up an acceptable plan to use excess vacation in a timely manner.**

**Findings:** The Department has allowed employees to accumulate and carry forward vacation in excess of the allowable time period. The auditors searched all vacation records and noted 14 employees whose vacation balances included hours that were not used within 24 months of the calendar year in which they were earned. In all 14 cases, letters were obtained from the Director or his designee approving the carry over of unused vacation. However, carry over is permissible only in the event that an employee's request for vacation is denied by management. The Department could not produce documentation that vacation time was requested and denied.

**Response:** Implemented. The Department continues to reinforce to staff that vacation must be carried over in accordance with the Personnel Rules. In situations where it is in the best interests of the Department, it will be documented that the employee was denied vacation leave and an acceptable plan has been established for the employee to use excess vacation in a timely manner.

**3. Comply with directives as specified in the law, SAMS Procedures and Comptroller's Office instructions with respect to reporting and recording fund activities. Furthermore establish and follow procedures to identify all laws and regulations governing activities in order that all future funds are properly reported and included in the Department's records when established.**

**Findings:** The Department operated a locally held bank account without statutory authority, without filing reports with the State Comptroller, and without reporting the fund to the Auditor General. In January 2000, the Department renegotiated a lease with a tenant of the Thompson Center resulting in the receipt of additional rent in the amount of \$467,292. CMS deposited this rent in a locally held escrow trust account for the purpose of paying remodeling costs associated with the occupancy of certain space in the building by the Board of Higher Education.

**Response:** Implemented. The Department issued a new Fiscal Operations Policy requiring notification of the Accounting Division prior to the establishment of any new bank account. The Department will continue to reinforce to management and fiscal personnel that all financial transactions must be properly recorded and reported in a timely fashion. A bulletin was posted on the Internet on December 1, 2003 informing all employees of the new policy.

**4. Institute procedures to more effectively monitor debt service payments to ensure timely deposit of installment payments and timely notification to the Illinois Office of the Comptroller of all bond principal and interest.**

**Findings:** The Department lacked specific control over funding of debt service payments resulting in one interest payment of \$469,975 being made late. Additionally, required notifications to the Office of the Comptroller regarding bond payments were not made on a timely basis. CMS, on behalf of the Department of Public Aid, entered into an arrangement for the installment purchase of land, a seven story building and related facilities in Chicago. CMS did not notify the Office of the Comptroller of certain debt service payments made as required by SAMS.

**Response:** Accepted. The CMS Accounting Division continues to work with the Property Management Bureau and the Comptroller's Office to ensure bond payments are made on a timely basis. Additional procedures have been implemented in FY04 to address timely submission of "Notice of Payment of Bond Interest and/or Principal" to the IOC.

**5. Implement procedures to make all employees aware of the State Vehicle Guide and all rules and regulations related to the use of a State or personal vehicle for business purposes. Establish procedures to ensure timely submissions of motor vehicle accident reports (SR-1).**

**Accepted - concluded**

**Findings:** During FY01 and FY02, CMS employees were involved in 51 accidents while driving State owned vehicles. Eighteen of the 51 reports were not filed within seven calendar days of the accidents. The Code also requires accidents involving personal vehicles used for State business to be reported within three days. The total cost to the State for all 51 accident claims was \$7,364 plus a reserve for a claim of \$2,500.

**Response:** Accepted. In FY2003, the average time between the date of the accident and the date the report was received for the 31 vehicle accidents was less than 4.5 days and the timeframe between being notified of an accident and submitting the report was 1.5 days. The average processing time was less than 6 days, which is below the required reporting time frame of 7 days.

**6. Establish adequate procedures to ensure the timely reconciliation of administrative costs of the WETSA (Wireless Emergency Telephone Safety Act) program.**

**Findings:** The Department's procedures for determining administrative costs of the Wireless Emergency Telephone Safety Act (WETSA) program are inadequate to ensure compliance with the law. The Department did not adjust administrative costs to actual or reconcile such costs annually as required by the Illinois Administrative Code. According to the Code, administrative costs shall be billed proportionately to the Wireless Carrier Reimbursement Fund and the Wireless Service Emergency Fund on a monthly basis.

The first reconciliation was performed in September 2001 for a period ending December 2000. The subsequent reconciliation was performed in September 2002 for a period covering 16 months, from December 2000 through April 2002. Based on CMS' calculation, the funds were overcharged approximately \$203,000 during the 16-month period. CMS did not reimburse the Communications Revolving Fund and the Statistical Services Revolving Fund timely, so the Department's financial reporting to the State Comptroller did not accurately reflect the actual administrative costs that were owed to these funds at June 30, 2002.

**Response:** Implemented. The Department performs reconciliations of the WETSA administrative costs on an annual basis. The WETSA program provides estimated accruals to accounting on a monthly basis to ensure proper reporting for GAAP. The Department performed a reconciliation of WETSA in July 2003.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

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State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

In FY01, emergency purchases totaled \$6,947,127.60. Of this total, \$73,386.30 was used for property management and the remaining \$6.87 million was to continue communications contracts to complete the competitive bidding process.

In FY02, emergency purchases totaled \$6,512,812.01. Of this total, \$5,717,438.16 was to extend communication contracts to complete the competitive bidding process; \$44,573.85 was to extend a computer contract to complete the competitive bidding process; \$350,000.00 was for a new HVAC system at a lab at the Department of Public Health; \$78,400.00 was for repairs at the Kenneth Hall Regional Office Building; \$176,600.00 was for vehicle insurance; \$100,000.00 was for increased security after the terrorist attacks on September 11, 2001; and \$45,800.00 was for a mail scanner at the mail center in Springfield.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Central Management Services indicated as of July 15, 2002, the Department had 46 employees assigned to locations other than official headquarters.